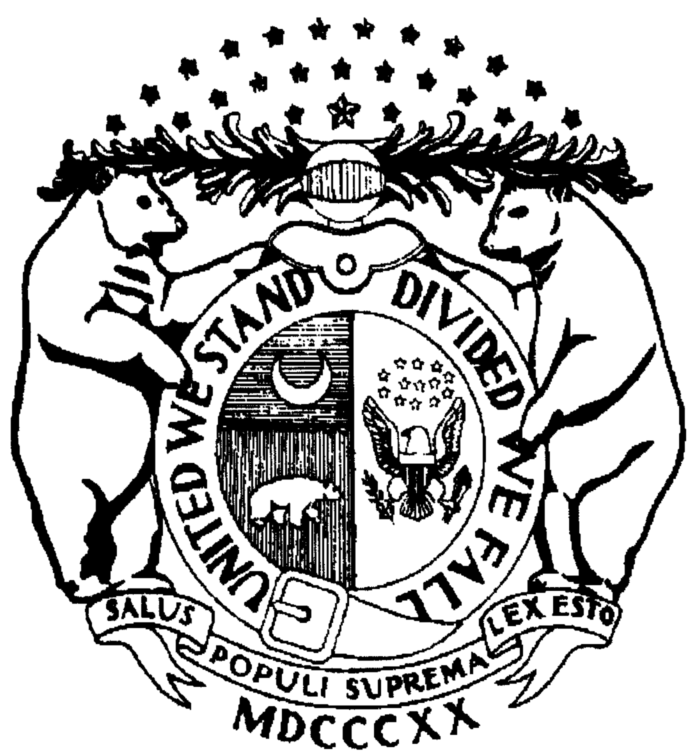
REPORT OF THE

ASSOCIATION FINANCIAL EXAMINATION OF

SHELTER REINSURANCE COMPANY

AS OF

DECEMBER 31, 2004



STATE OF MISSOURI

DEPARTMENT OF INSURANCE

JEFFERSON CITY, MISSOURI

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Columbia, Missouri
June 12, 2006

Honorable Alfred W. Gross, Commissioner
Virginia Bureau of Insurance
Chairman, Financial Condition (E) Committee

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Shelter Reinsurance Company

hereinafter referred to as such, as Shelter Reinsurance, or as the Company. Its administrative office is located at 1817 West Broadway, Columbia, Missouri 65218, telephone number 573-445-8441. This examination began on June 6, 2005, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Shelter Reinsurance was made as of December 31, 2001, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2002, through December 31, 2004, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination was conducted concurrently with the examinations of the Company's parent, Shelter Mutual Insurance Company (Shelter Mutual), and its affiliates, Shelter General Insurance Company (Shelter General), and Shelter Life Insurance Company (Shelter Life). Shelter Mutual and its insurance subsidiaries are collectively referred to as the Shelter Insurance Companies in this report.

This examination also included the material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Ernst & Young, LLP, of Kansas City, Missouri, for its audit covering the period from January 1, 2004, through December 31, 2004. Information relied upon included attorney letters, tests of controls, and narrative descriptions of processes and controls.

COMMENTS - PREVIOUS EXAMINATION

The previous financial examination of Shelter Reinsurance was conducted by the MDI for the period ending December 31, 2001. Listed below are the comments, recommendations, and notes from the previous examination report, the Company's response, and the findings in the current examination.

Premiums Receivable

Comment: It was noted that a deferred acquisition cost (DAC) asset of $2,741,661 was netted into the premiums receivable that were reported from Kiln Underwriting, Ltd (Kiln). DAC assets are not specified as admitted assets in the Accounting Practices and Procedures Manual, and therefore, should have been extracted from the net amount and non-admitted. In the future, the Company should ensure to properly non-admit DAC assets that are reported in the Kiln ceding statements and reported in any other assumed reinsurance balances.

Company's Response: The Company stated it records reinsurance assumed activity from customer bordereaux in accordance with Statement of Statutory Accounting Principle (SSAP) No. 62, Property and Casualty Reinsurance, in order to mirror amounts ceded to Shelter Reinsurance, as required. The Company stated it had no documentation for the DAC assets referred to in the examination report. Nevertheless, the Company stated that DAC assets would be non-admitted in the future.

Current Findings: The premiums receivable from Kiln were reported as Lloyd's Syndicate No. 557 in the 2004 Annual Statement. No DAC assets were found imbedded in the December 31, 2004 reported receivable of $18,306,000 from Kiln / Lloyd's Syndicate No. 557, based upon documentation supplied by the Company.

Premiums Receivable

Comment: It was noted that Shelter Reinsurance had premiums receivable over 90 days past due from alien ceding companies that were not offset by unearned premium or loss reserves. These amounts totaled $1,358,083 and should have been non-admitted, pursuant to SSAP No. 62, paragraph 36. The Company was instructed to ensure to properly non-admit assumed premiums receivable amounts over 90 days past due in the future, in accordance with SSAP No. 62.

Company's Response: The Company stated that its premium receivables are recorded net of unearned premiums and losses for purposes on non-admittance when over 90 days past dues, as outlined in SSAP No. 62. The Company stated it had no documentation for the amounts referred to in the examination report and were unable to identify any additional receivables that warrant non-admittance.

Current Findings: Shelter Reinsurance did not have any material uncollected premium receivables, as of December 31, 2004. Thus, the aging of receivable balances was not investigated in the current examination.

Reserve Deficiencies

Comment: MDI's consulting actuary, Expert Actuarial Services, LLC, determined that Shelter Reinsurance's loss reserves were deficient, by $5,254,000, as of December 31, 2001. The reserve deficiency did not appear to be due to any failures in the Company's actuarial methods or assumptions.

Company's Response: The Company stated that the December 31, 2001 reserves were established based upon all known information at that date. An independent actuary certified the reasonableness of the recorded values. Subsequent loss development on 2001 and prior claims surfaced in 2002 resulting in strengthening the 2001 and prior reserves by $12.3 million. Individual programs and markets that generated the adverse development are generally no longer being written. In addition, significant changes in initial underwriting as well as subsequent loss reserving processes have been implemented to avoid further adverse development on reported losses.

Current Findings: MDI's consulting actuary found that the Company's reported loss reserves, as of December 31, 2004, were reasonable.

HISTORY

General

Shelter Reinsurance was incorporated on October 6, 1986. It was issued a Certificate of Authority and commenced business on November 24, 1986. The Company operates as a stock property and casualty reinsurer under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life).

Capital Stock

Shelter Reinsurance is owned 100% by Shelter Mutual. The Company is authorized to issue 15,000,000 shares of common stock with a par value of $1 per share. As of December 31, 2004, all 15,000,000 shares were issued and outstanding for a total capital stock balance of $15,000,000.

Dividends

No dividends or cash distributions were paid or declared during the examination period.

Management

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder, Shelter Mutual. The Company's Articles of Incorporation and Bylaws specify that the number of directors shall be nine. The Board of Directors appointed and serving, as of December 31, 2004, were as follows:

Name and Address	Principal Occupation and Business Affiliation
James A. Offutt* Osage Beach, MO	Chairman, Retired Executive Shelter Insurance Companies
J. Donald Duello* Rocheport, MO	Vice Chairman, President and CEO Shelter Insurance Companies
Gerald T. Brouder Columbia, MO	President Columbia College
H. Marshall Chatfield Columbia, MO	Retired Executive Kansas City Life Insurance Company
Ann K. Covington* Columbia, MO	Attorney / Partner Bryan Cave, LLP
Andres Jimenez Madrid, Spain	Vice President and Chief Executive Officer Mapfre Re Compania de Reaseguros, S.A.
Raymond E. Jones** Columbia, MO	Executive Vice President and Secretary Shelter Insurance Companies
Don A. McCubbin Sturgeon, MO	Executive Vice President Shelter Insurance Companies
Barry L. McKuin Morrilton, AR	President Morrilton Area Chamber of Commerce

* The following changes occurred, effective November 19, 2005: Mr. Offutt retired and was replaced as a Board member by J. David Moore. Mr. Moore was elected as President and Chief Operating Officer. Mr. Duello was elected as the Chairman of the Board. Ms. Covington was elected as the Vice Chairman of the Board.

** Mr. Jones retired as an employee in April 2006, but remains a director.

Committees

The Bylaws require an Executive and Compensation Committee, Audit Committee, and an Investment Committee of the Board of Directors. The Bylaws also allow for other committees to be appointed by the Board of Directors as needed. As of December 31, 2004, the members of each committee were as follows:

Executive and Compensation Committee
Ann K. Covington, Chairman
J. Donald Duello
H. Marshall Chatfield
James A. Offutt
Gerald T. Brouder

Audit Committee
Barry L. McKuin, Chairman
Ann K. Covington
H. Marshall Chatfield

Investment Committee
J. Donald Duello, Chairman
Raymond E. Jones
Thomas Fischer
Ann K. Covington
Don A. McCubbin
James A. Offutt
H. Marshall Chatfield

Officers

The officers elected by the Board of Directors and serving as of December 31, 2004#, were as follows:

John D. Duello @	President and Chief Executive Officer
Raymond E. Jones ◊	Executive Vice President and Secretary
Gary D. Myers	Executive Vice President
Don A. McCubbin	Executive Vice President
Jerry L. French ✦	Vice President, Treasurer and Assistant Secretary
Thomas N. Fischer	Vice President – Investments
James J. Folger	Vice President – Reinsurance Operations
Max T. Dills	Vice President – Administration

J. David Moore was elected as Executive Vice President on April 6, 2005.

@ Mr. Moore replaced Mr. Duello as President, effective November 19, 2005. Mr. Duello retained the CEO position.

◊ Mr. Jones retired in April 2006. Randa Rawlins, the Company's General Counsel, was elected as Secretary in April 2006 to replace Mr. Jones.

✦ Mr. French was elected as Executive Vice President, effective January 1, 2006.

Conflict of Interest

The Company has a policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation during the period under examination. The Bylaws were amended and restated in February 2005 to specify the indemnification guidelines for employees, officers, and directors that are subject to litigation proceedings. The Bylaws were amended in October 2005 to add the Investment Committee as a required committee of the Board of Directors, revise the duties and requirements of elected officers, and other minor changes.

The minutes of the Board of Directors' meetings, committee meetings, and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

There were no acquisitions, mergers, or major corporate events during the examination period.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by the parent, Shelter Mutual, on behalf of itself, Shelter Reinsurance, and its other insurance subsidiaries, for each year of the examination period.

Shelter Mutual, a property and casualty insurer, does not have any stockholders or controlling entity due to its formation as a mutual entity. The Company is ultimately owned by the policyholders of Shelter Mutual. Affiliated insurers that are also owned 100% by Shelter Mutual include Shelter General, a property and casualty insurer, and Shelter Life, a life insurance company.

The following subsidiaries are owned 100% by Shelter Reinsurance, unless specified otherwise:

Shelter (UK) Holdings, Ltd. – A holding company for Shelter Dedicated, Ltd. and Commodore Underwriting Agencies, Ltd. The fair market value was written down to zero at the end of 2004. This entity is in the process of being dissolved.

Shelter Dedicated, Ltd. – A Lloyd's of London corporate member that accepts risks for a Lloyd's syndicate. Accepted risks for the policy year from January 1, 2001 through December 31, 2001. Due to the poor experience, no other risks were accepted after 2001. The company is now in run-off with a three-year accounting period ending December 31, 2003. It was sold to an unaffiliated entity for one British pound in December 2005.

Commodore Underwriting Agencies, Ltd. (Commodore) – An underwriter for risks taken by Shelter Dedicated, Ltd and other Lloyd's syndicates. As of the first quarter of 2003, the entity has no operations, employees, or significant assets and is pending dissolution.

Shelter Enterprises, LLC – This is a small entity (only $5.7 million of total assets) that owns property and equipment and derives its income from leasing the assets to affiliates, including Shelter Mutual. Owned 10% by Shelter Reinsurance.

The operations of the Company's other affiliates are described as follows:

Shelter Financial Services, Inc. (SFS) – A holding company for Shelter Benefits Management, Inc.

Shelter Benefits Management, Inc. (Shelter Benefits) – Manages various agent and employee services for Shelter Mutual employees. Services provided include human resource functions, payroll services, and benefits administration for the employees, agents, and retirees of Shelter Mutual.

Shelter Financial Corporation (SFC) – A holding company for Shelter Bank.

Shelter Bank – A savings and loan company that sells certificates of deposits, individual retirement accounts, and provides auto loans and mortgage loans. It does not have any demand accounts (checking or savings). Its customers are mainly policyholders of Shelter Mutual and Shelter General, but customers may also come from the general public.

Daniel Boone Underwriters, LLC – An insurance broker that places risks from leads generated by agents of the Shelter Insurance Companies. The risks placed are in lines of business that are not written by Shelter Mutual, Shelter General, or Shelter Life.

Daniel Boone Agency, Inc. – An insurance broker in the same manner as explained for Daniel Boone Underwriters, LLC above, except that this entity operates in Illinois only. This company was merged into Daniel Boone Underwriters, LLC in January 2006.

DBU, Inc. – An insurance broker in the same manner as explained for Daniel Boone Underwriters, LLC above, except that this entity operates in Mississippi only. This company was merged into Daniel Boone Underwriters, LLC in January 2006.

Organizational Chart

The following table depicts Shelter Reinsurance's ownership and holding company system, as of December 31, 2004:

Company	Parent or Controlling Entity	Ownership
Shelter Mutual Insurance Company	Policyholders	100%
Shelter General Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Enterprises, LLC	Shelter General Insurance Company Shelter Life Insurance Company Shelter Reinsurance Company	45% 45% 10%
Shelter Life Insurance Company	Shelter Mutual Insurance Company	100%
Shelter Reinsurance Company	Shelter Mutual Insurance Company	100%
Shelter (UK) Holdings, Ltd.	Shelter Reinsurance Company	100%
Shelter Dedicated, Ltd.	Shelter (UK) Holdings, Ltd.	100%
Commodore UW Agencies, Ltd.	Shelter (UK) Holdings, Ltd.	62.3%
Shelter Financial Corporation	Shelter Mutual Insurance Company	100%
Shelter Bank	Shelter Financial Corporation	100%
Shelter Financial Services, Inc.	Shelter Mutual Insurance Company Shelter General Insurance Company Shelter Life Insurance Company	79.5% 11.0% 9.5%
Shelter Benefits Management, Inc.	Shelter Financial Services, Inc.	100%
Daniel Boone Underwriters, LLC	Shelter Mutual Insurance Company Shelter General Insurance Company Shelter Life Insurance Company	40% 40% 20%
Daniel Boone Agency, Inc.	Daniel Boone Underwriters, LLC	100%
DBU, Inc.	Daniel Boone Underwriters, LLC	100%

Intercompany Agreements

The Company's intercompany agreements in effect, as of December 31, 2004, are outlined below.

1. **Type:** Agreement for Management Services and Facilities

   Affiliates: Shelter Mutual

   Effective: January 1, 1997

   Terms: Shelter Mutual agrees to provide the employees to operate all aspects of Shelter Reinsurance. Services to be provided include recordkeeping, processing, planning, budgeting, receipt and disbursement activities, and all work incidental to the operation of the Shelter Reinsurance's business. Shelter Mutual agrees to provide office space, utilities, computer systems, office equipment, and supplies. In exchange for the services and facilities provided by Shelter Mutual, Shelter Reinsurance will make monthly payments to Shelter Mutual. Payments will be calculated in accordance with the Joint Expense Allocation Agreement between Shelter Mutual and the Subsidiaries.

2. **Type:** Joint Expense Allocation Agreement

   Affiliates: Shelter Mutual, Shelter General, Shelter Life, SFS, Daniel Boone Underwriters, LLC, Shelter Enterprises, LLC, Daniel Boone Agency, Inc., DBU, Inc., Shelter Benefits

   Effective: May 19, 1999 (original Agreement)
   December 1, 2004 (amended and restated)

   Terms: Each party agrees to pay its direct expenses in instances when each entity's actual usage can be determined. The parties agree to allocate any joint expenses for instances in which the identification and segregation of each entity's actual share is not practically feasible. The allocation methodologies for each category of joint expenses are as follows:

   (1) Personnel – estimated or actual time
   (2) Real Estate – square footage and employee count
   (3) Investment – portfolio value
   (4) Claims Adjustment (applicable to Shelter Mutual and Shelter General only) – incurred losses
   (5) Reinsurance (applicable to Shelter Mutual and Shelter General only) – actual premiums and claims of each entity
   (6) Other Expenses – assets, employee count, or written premium

3. **Type:** Tax Allocation Agreement

Affiliates: Shelter Mutual, Shelter General, Shelter Life, SFS, SFC, Shelter Benefits, Shelter Bank

Effective: No stated effective date. Applicable to 1999 and subsequent tax years.

Terms: Shelter Mutual will file a consolidated federal income tax return on behalf of itself and its subsidiaries. The tax liability for each company will be the amount that would have been determined on a separate filing basis. The subsidiaries will pay their share of tax payments to Shelter Mutual within 10 days following any tax payments made by Shelter Mutual. Shelter Mutual will refund any amount due to the subsidiaries within 10 days after filing the consolidated return.

Intercompany Transactions

Shelter Reinsurance is a named insured on a general liability insurance policy issued by Shelter Mutual. The policy insures the premises and operations of the Shelter Mutual and all named insureds. Premium for this policy is charged to Shelter Reinsurance through intercompany allocations under the Joint Expense Allocation Agreement.

Shelter Reinsurance provides earth movement coverage on all real and personal property at locations owned or used by Shelter Mutual. Premium is paid directly to Shelter Reinsurance upon receipt of renewal notice.

The following table summarizes the payments made during the exam period, between Shelter Reinsurance and its affiliates, pursuant to intercompany agreements.

		Net Paid / (Received)		
Affiliate	Agreement	2002	2003	2004
Shelter Mutual	Joint Expense Allocation	$ 683,586	$ 882,534	$1,123,221
Shelter Mutual	Tax Allocation	(1,202,368)	8,590,786	1,680,725
Shelter Enterprises	Cash Dividends	(75,000)	(150,000)	(50,000)
TOTAL		($593,782)	$9,323,320	$2,753,946

FIDELITY BOND AND OTHER INSURANCE

The Shelter Insurance Companies are named insureds on a financial institution bond. The bond provides employee fidelity coverage with a liability limit of $2,500,000 and a $50,000 deductible. This level of coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Shelter Insurance Companies are also named insureds on the following insurance policies: property, general liability, umbrella excess liability, automobile physical damage and liability (self insured), aircraft physical damage and liability, workers compensation and employers liability, computer crime, kidnap and ransom / extortion, and earth movement (self insured).

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Shelter Reinsurance does not have any direct employees or agents. Employees of the parent, Shelter Mutual, perform all functions necessary for the operation of Shelter Reinsurance, pursuant to the Agreement for Management Services and Facilities. As of December 31, 2004, there were seven Shelter Mutual employees that work solely on the business functions of Shelter Reinsurance. Shelter Reinsurance reimburses Shelter Mutual for an allocated share of the payroll and benefits costs of the employees that provide services, pursuant to a Joint Expense Allocation Agreement. Both agreements are described further in the Intercompany Agreements section of this report.

A variety of standard benefits are provided to the Shelter Mutual employees. These benefits include, but are not limited to, the following: medical insurance, dental insurance, life insurance, personal accident insurance, disability insurance, sick leave, and tuition reimbursement. Employees are also provided with a defined benefit pension plan and a 401(k) savings and profit sharing plan. Certain highly compensated employees are provided with a Supplemental Employee Retirement Plan (SERP).

STATUTORY AND OTHER DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities Deposit). The funds on deposit as of December 31, 2004, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
Municipal and State Bonds	$2,000,000	$2,068,120	$2,008,434

Deposits with Other States

The Company did not have any funds on deposit with other states, as of December 31, 2004.

Other Deposits

The Company has pledged assets to Brown Brothers Harriman & Co. as collateral for letters of credit in support of reinsurance assumed from Lloyd's Syndicate 557 (Kiln Underwriting, LTD.) The pledged funds on deposit, as of December 31, 2004, were as follows:

Type of Security	Par Value	Fair Value	Statement Value
U.S. Government Bonds	$6,425,000	$6,896,978	$6,454,511

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed for the business of property and casualty insurance in the State of Missouri under Chapter 379 RSMo. The Company is also licensed as a reinsurer only in the following states: Iowa, Kansas, Maryland, Michigan, and Pennsylvania. In addition, the Company is either registered or licensed as a reinsurer in Argentina, Colombia, Mexico, Paraguay, and Puerto Rico.

The Company is primarily a reinsurer with over 99% of its premiums being reinsurance assumed. Shelter Reinsurance's business consists of property reinsurance risks written through both direct placement and reinsurance brokers. The Company's book of business is comprised of roughly 336 contracts with domestic and international insurers. Below is a summary of the major treaty types and the related premium volume at the beginning of 2005:

Treaty Type	Number of Treaties	Percent of Annual Premium Volume
Property Catastrophe	297	28.7%
Property Proportional	31	71.1%
All Other	8	0.2%
Total	336	100.0%

Approximately 27% of the assumed premiums come from the Company's parent, Shelter Mutual Insurance Company, which retrocedes all of its assumed reinsurance (excluding involuntary pools and associations) to Shelter Reinsurance.

International accounts represented 81% of the aggregate property risks assumed by the Company. The primary locations for these international risks are Japan, Europe, and the Caribbean. Ceding companies in the United States are mainly small to mid-size insurers.

Policy Forms & Underwriting;
Advertising & Sales;
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. Since the Company is primarily a reinsurer with only a minimal volume of direct business, a market conduct examination for the Company has not been performed by Missouri or any other states.

REINSURANCE

General

The Company's premium activity on a direct written, assumed and ceded basis, for the period under examination, is detailed below:

	2002	2003	2004
Direct Business	$ 5,000	$ 5,000	$ 5,000
Reinsurance Assumed:			
Affiliates	7,768,192	13,542,580	7,400,788
Non-affiliates	51,530,413	34,246,122	20,496,228
Reinsurance Ceded:			
Affiliates	0	0	0
Non-affiliates	(93,545)	0	(742,860)
Net Premiums Written	**$59,210,060**	**$47,793,702**	**$27,159,156**

Assumed

Shelter Reinsurance Company was formed in 1986 to manage the reinsurance business assumed by its parent, Shelter Mutual Insurance Company, and to expand the reinsurance book of business written by the Shelter Companies. Shelter Reinsurance is a professional reinsurer with numerous reinsurance agreements. All of the Company's business is assumed reinsurance except for one small direct policy, which is issued to Shelter Mutual.

The table below lists the ceding companies with the largest percentage of Shelter Reinsurance's 2004 assumed premiums, losses and LAE payable, and case loss reserves.

Name of Ceding Company	2004 Assumed Premium	12/31/2004 Assumed Losses and LAE Payable Plus Case Reserves
Shelter Mutual Insurance Company	$ 7,401,000	$12,281,000
Transatlantic Reinsurance Company	3,645,000	8,682,000
Cayman Overseas Reinsurance Assoc.	468,000	4,939,000
Lloyd's Syndicate No. 557	38,000	16,987,000
Mapfre Re Compania de Reaseguros, S.A.	10,152,000	4,122,000
Subtotal	$21,704,000	$47,011,000
Total for All Assumed Business	$27,896,000	$60,433,000
Subtotal Percentage of Total	77.80%	77.79%

Shelter Reinsurance has an intercompany retrocession agreement, effective January 1, 1987, with Shelter Mutual, in which Shelter Mutual acts as a fronting company for Shelter Reinsurance. Pursuant to this agreement, Shelter Reinsurance assumes 100% of the risks from Shelter Mutual's entire book of assumed business, except for business from involuntary pools and associations. The arrangement exists because Shelter Mutual can obtain more favorable contract terms by utilizing its A.M. Best rating of "A" (Excellent), in comparison to Shelter Reinsurance's lower rating of "A-" (Excellent).

The most significant active business assumed through the fronting arrangement with Shelter Mutual is from Zenkyoren, also known as the National Mutual Insurance Federation of Agricultural Cooperatives, Japan. Premiums assumed in 2004 for Zenkyoren business totaled $2.3 million, which was 31% of the total premiums assumed from Shelter Mutual. Risks assumed are earthquake, fire, and other natural perils for property located in Japan.

Most of the reserves and losses and LAE payable from the fronting business assumed from Shelter Mutual is for run-off business. The total of assumed reserves plus losses and LAE payables for business from the Mutual Reinsurance Bureau (MRB) was $5.1 million, as of December 31, 2004, or 41% of the total assumed from Shelter Mutual. The MRB business consists of property risks for the 1986 to 2001 underwriting years.

The Company has various other programs for assumed business. Generally, the Company executes a new reinsurance agreement for each underwriting year. Below is a description of the significant active programs:

- The Company participates in facultative reinsurance agreements with Transatlantic Reinsurance Company to assume commercial property risks in Central and South America, and Caribbean territories.
- Shelter Reinsurance has numerous quota share reinsurance agreements to assume business from Mapfre Re Compania de Reaseguros, S.A. (Mapfre Re). Various property risks located in Europe are assumed, including fire, marine, engineering, and electronic equipment.
- The Company has a secondary program with Mapfre Re, in which Shelter Re participates in a pool that is managed by Mapfre Re. The pool is known as the "CIAR System" and consists of a group of thirteen European direct insurers. Various lines of property and casualty business is assumed from the CIAR System for risks located in Europe, Australia, and New Zealand.
- The Company participates in quota share and first surplus agreements with Cayman General Insurance Co. Ltd. Shelter Reinsurance assumes business for property and casualty risks located in the Cayman Islands.

The Company has a quota share agreement, effective January 1, 2000, with Kiln Underwriting Limited, which is an underwriter for Lloyd's Syndicate No. 557. Under this agreement, Kiln Underwriting Limited ceded 16% of its property business written through the Syndicate No. 557 to Shelter Reinsurance. Shelter Reinsurance's total maximum liability limit, as stated in the agreement, was 16% of £69,000,000, which translates to approximately $21,274,000 at December 31, 2004 exchange rates. The agreement covered the underwriting years of 2000, 2001, and 2002, and was terminated effective December 31, 2002. The remaining losses and LAE payable by Shelter Reinsurance for this agreement of $16,987,000, as of December 31, 2004, were settled during 2005.

Ceded

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Shelter Reinsurance does not currently cede any portion of its active business. The Company reported total ceded premiums of $743,000 for 2004 and total ceded loss reserves were only $114,000, as of December 31, 2004. This activity relates to old aviation business that is in run-off status.

The Company monitors program limits and aggregate exposures within geographic region to assess risks from catastrophes. The main catastrophic risks to Shelter Reinsurance's book of business are hurricanes and earthquakes. Management determined that catastrophe coverages are not necessary, based upon its modeling and risk analysis.

ACCOUNTS AND RECORDS

General

The CPA firm, PricewaterhouseCoopers, LLP, (PWC) of St. Louis, Missouri, issued audited statutory financial statements of the Company for 2002 and 2003. The CPA firm, Ernst & Young, LLP, of Kansas City, Missouri, issued the audited financial statements of the Company for 2004. The Company stated that the change of CPA firms was strictly due to a competitive bid process and that there was no disagreement or issues with PWC that led to the change.

The reserves for losses and loss adjustment expenses (LAE) were reviewed and certified by Terrence M. O'Brien, FCAS, MAAA, CPCU for the years ending December 31, 2002 and December 31, 2003. Mr. O'Brien is employed by the Chicago, Illinois office of PWC. The reserves for losses and LAE were reviewed and certified by Robert Wainscott, FCAS, MAAA for the year ending December 31, 2004. Mr. Wainscott is employed by the Ernst &Young, LLP office in Chicago, Illinois.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Shelter Reinsurance for the period ending December 31, 2004. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements." The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore, were only communicated to the Company and noted in the workpapers for each individual Annual Statement item.

Assets
as of December 31, 2004

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	$143,876,772	$ 0	$143,876,772
Cash and Short-term Investments	9,333,911	0	9,333,911
Other Invested Assets	561,091	0	561,091
Investment Income Due and Accrued	2,425,103	0	2,425,103
Uncollected Premiums and Agents' Balances in the Course of Collection	873,915	18,164	855,751
Deferred Premiums, Agents' Balances and Installments Booked But Deferred and Not Yet Due	18,479,556	0	18,479,556
Funds Held by or Deposited with Reins. Co.'s	7,974,729	0	7,974,729
Other Reinsurance Amounts Receivable	240,995	0	240,995
Net Deferred Tax Asset	8,086,682	902,382	7,184,300
TOTAL ASSETS	**$191,852,754**	**$920,546**	**$190,932,208**

Liabilities, Surplus and Other Funds
as of December 31, 2004

Losses	$ 72,157,967
Reinsurance Payable on Paid Loss and LAE	20,237,862
Loss Adjustment Expenses	350,065
Commissions Payable	92,217
Other Expenses	0
Taxes, Licenses and Fees	5
Federal Income Taxes Payable	406,303
Unearned Premiums	6,697,582
Ceded Reinsurance Premiums Payable	4,489
Net Adjustments Due to Foreign Exchange Rates **(Note 1)**	3,163,647
Payable to Parent, Subsidiaries and Affiliates	4,546,744
Aggregate Write-Ins for Liabilities:	0
Retroactive Reinsurance	4,765,250
Miscellaneous Accounts Payable	70,128
TOTAL LIABILITIES	**$112,492,259**
Common Capital Stock	15,000,000
Gross Paid In and Contributed Surplus	20,000,000
Unassigned Funds (Surplus)	43,439,949
Surplus as Regards Policyholders	**$ 78,439,949**
TOTAL LIABILITIES AND SURPLUS	**$190,932,208**

Statement of Income
For the Year Ended December 31, 2004

Premium Earned	**$32,563,248**
DEDUCTIONS:	
Losses Incurred	21,159,267
Loss Expenses Incurred	556,032
Other Underwriting Expenses Incurred	11,529,095
Aggregate Write-Ins for Underwriting Deductions	0
Total Underwriting Deductions	**$33,244,394**
Net Underwriting Loss	**($ 681,146)**
Net Investment Income Earned	9,262,583
Net Realized Capital Gains	1,109,165
Net Investment Gain	**$10,371,748**
Other Income	395,961
Federal Income Taxes Incurred	(2,269,087)
Net Income	**$ 7,817,476**
CAPITAL AND SURPLUS ACCOUNT:	
Surplus as Regards Policyholders, December 31, 2003	$70,753,422
Net Income	7,817,476
Change in Net Unrealized Capital Gains (Losses)	(9,620)
Change in Net Unrealized Foreign Exchange Gains (Losses)	444,418
Change in Net Deferred Income Tax	(696,291)
Change in Non-Admitted Assets	130,545
Examination Changes	(0)
Surplus as Regards Policyholders, December 31, 2004	**$78,439,950**

Notes to the Financial Statements

Note 1 – Net Adjustments Due to Foreign Exchange Rates **$3,163,647**

The Company converts transactions involving foreign currencies to U.S. dollars, utilizing the currency exchange rate at the time the transaction is recorded. At year-end 2004, the Company adjusted various asset and liability accounts for fluctuations in foreign currency rates that occurred from the date of original entry to December 31, 2004. The changes in asset and liability lines were totaled and the net amount of $3,163,647 was incorrectly included in the Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rates (Net Adjustments) line of the Annual Statement.

Paragraph 5.b. of SSAP No. 23 (Foreign Currency Transactions and Translations) requires that changes in asset and liability balances due to fluctuation in foreign exchange rates should be reflected in each individual Annual Statement line. For example, changes in Loss reserves, due to foreign exchange rates, should have been reflected in the Losses line instead of the Net Adjustments line. None of the changes due to foreign currency amounts should be reported in the Net Adjustments line. This problem was communicated to the Company in the prior examination, as of December 31, 2001, but the Company has continued to report its balance sheet incorrectly.

The Company is directed to properly report the changes in asset and liability balances due to changes in foreign exchange rates in the applicable Annual Statement lines in the future, in accordance with SSAP No. 23.

Examination Changes

None.

General Comments and/or Recommendations

Foreign Exchange Adjustment (page 23)

At year-end 2004, the Company adjusted various asset and liability accounts for fluctuations in foreign currency rates that occurred from the date of original entry to December 31, 2004. The changes in asset and liability lines were totaled and the net amount of $3,163,647 was incorrectly included in the Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rates (Net Adjustments) line of the Annual Statement.

Paragraph 5.b. of SSAP No. 23 (Foreign Currency Transactions and Translations) requires that changes in asset and liability balances due to fluctuation in foreign exchange rates should be reflected in each individual Annual Statement line. None of the changes due to foreign currency amounts should be reported in the Net Adjustments line. This problem was communicated to the Company in the prior examination, as of December 31, 2001, but the Company has continued to report its balance sheet incorrectly.

The Company is directed to properly report the changes in asset and liability balances due to changes in foreign exchange rates in the applicable Annual Statement lines in the future, in accordance with SSAP No. 23.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Shelter Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, Shannon Schmoeger, CFE, Larry Kleffner, CFE, Karen Baldree, CPA, CFE, Al Garon, CFE, and Andy Balas, CFE, examiners for the Missouri Department of Insurance, also participated in this examination. The firm of Expert Actuarial Services, LLC, also participated as a consulting actuary.

VERIFICATION

State of Missouri)
)
County of Boone)

I, Tim L. Tunks, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Shelter Reinsurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Tim L. Tunks

Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 21 day of June, 2006.

My commission expires: June 24, 2009

Robert E Beuthien

Notary Public

ROBERT E. BEUTHIEN
Notary Public - State of Missouri
County of Boone
My Commission Expires Jun. 24, 2009
Commission #05523907

ROBERT E. BEUTHIEN
Notary Public - Notary Seal
State of Missouri - County of Boone
My Commission Expires Jun. 24, 2009
Commission #05523907

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

Frederick G. Heese, CFE, CPA
Audit Manager
Missouri Department of Insurance

SHELTER INSURANCE COMPANIES

J. DAVID MOORE
PRESIDENT
(573) 214-4568
FACSIMILE: (573) 214-6363

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MO INS DEPT
AUG 21 2006

IMSA
INSURANCE MARKETPLACE STANDARDS ASSOCIATION
Committed to honesty, integrity and ethics

August 18, 2006

Kirk Schmidt, CFE, CPA
Chief Financial Examiner
State of Missouri
Department of Insurance
P.O. Box 690
Jefferson City, Missouri 65102-0690

Dear Mr. Schmidt:

I received your letter of August 10, 2006, along with a draft copy of the Examination Report of Shelter Reinsurance Company for the period ending December 31, 2004. As requested, I am providing the Company's responses to the comments on page 23 of the Examination Report. I also note additional corrections regarding pages 12 and 14.

It is requested that the Company's response be included in the Report as a public document.

Sincerely,

J. David Moore

J. David Moore
President and Chief Operating Officer

JDM:mta

Attachment

1817 WEST BROADWAY • COLUMBIA, MISSOURI • 65218-0001

RESPONSES OF SHELTER REINSURANCE COMPANY
TO THE
GENERAL COMMENTS AND/OR RECOMMENDATIONS
OF THE EXAMINATION REPORT
OF SHELTER REINSURANCE COMPANY
FOR THE PERIOD ENDING DECEMBER 31, 2004

Page 12 **The first paragraph of the section "Intercompany Transactions" should be deleted. Lloyd's Syndicate 557 is not an affiliate of the Company, its Parent, its subsidiaries or any of its affiliates.**

Page 14 **The first sentence of the first paragraph of "Other Deposits" should be restated to: "The Company has pledged assets to Brown Brothers Harriman & Co. as collateral for letters of credit in support of reinsurance assumed from Lloyd's Syndicate 557 (Kiln Underwriting, LTD.)**

Comment: **Foreign Exchange Adjustment (Page 23)**

The Company differs in opinion as to the Missouri Department of Insurance's interpretation of SSAP 23 (Foreign Currency Transactions and Translations). The Department references Paragraph 5.b. of SSAP No. 23, which refers to foreign insurance operations which must be translated into U.S. dollars. In Paragraph 2, foreign currency translation is defined as "the translation of financial statements, denominated in the reporting entity's functional currency, into U.S. dollars prior to their incorporation into financial statements through consolidation or the equity method of accounting."

The Company does not own any foreign operations or branches and therefore does not translate or incorporate operations into their financial statements. Instead, the Company books foreign currency transactions, which are defined separately in Paragraph 2 as "a transaction denominated in a currency other than the reporting entity's functional currency."

Shelter Reinsurance's foreign currency transactions are covered in Paragraph 6. Paragraph 6.b. states "changes in balance sheet asset and liability values due to fluctuations in foreign currency exchange rates shall be recorded as unrealized capital gains and losses until the asset is sold or exchanged or the liability is settled. Upon settlement, previously recorded unrealized capital gains and losses shall be reversed and the foreign exchange profit or loss for the entire holding period shall be recorded as a realized capital gain or loss."

Furthermore, the NAIC instructions for Page 3 (Liabilities, Surplus and Other Funds), Line 17 (Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rates) state the line includes "the appropriate exchange differential

applied to the excess, if any, of foreign currency...Record the difference, if an asset, on the Assets page, in the Details of Write-ins Aggregated line for Other than Invested Assets; or, if a liability, on the Liabilities, Surplus and Other Funds page, on the Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rates line."

The Company will continue to record the net effect of the exchange differential for its foreign currency transactions as either an asset or liability on the Net Adjustments in Assets and Liabilities Due to Foreign Exchange Rate line and as an Unrealized Capital Gain or Loss until realized in accordance with SSAP 23, paragraph 6.